

and that prior to sale or transfer of the asset, the entire amount of the mortgage payments made by the borrower are applied to the principal amount.

22. An equity participation mortgage obligation concerning an asset which is subject to a mortgage, the mortgage obligation comprising and specifying:

payment obligations of a borrower to a lender concerning the asset;

mortgage terms, including a principal amount and an amortization period;

principal and periodic payment obligations of the borrower accruing under the mortgage obligation;

that the lender may share in a predetermined percentage of realized appreciation on subsequent sale of the asset which is the subject of the mortgage; and

that the timing of equity participation with the lender is indeterminable, and may occur prior to the maturity date

23. The equity participation mortgage obligation of Claim 22, further comprising and specifying that the timing of equity participation with the lender is controlled by the borrower.

Remarks

Claims 1 and 10 have been revised, and new Claims 11-23 have been added.

A Supplemental Information Disclosure Statement is concurrently filed herewith.

Clarifying revisions to the specification have been made. The revisions are believed to be

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fully supported by the specification as originally filed.

A "clean" version of the amended claims follows this page. Clean and marked-up copies of the specification follow, as well.

If the next written communication is intended to be other than a notice of allowance of the pending claims, the Examiner is requested to contact the undersigned to discuss the case before sending any further written communication.

Respectfully submitted,



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Dated: November 21, 2001

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**Serial No.: New CON of 09/298767 Application
Amended Specification**

Marked Copy

Beginning at Page 5, line 17

[The return on a mortgage, or any investment, can be measured as:

$$\frac{\text{Average Annual Profit}}{\text{Average Annual Principal}}$$

What former mortgage plans ignore is the value of maximizing the return by manipulating the denominator, annual average principal, so that it is repaid much more rapidly, and on or near a straight line amortization basis. This can only be done by removing current interest paid on outstanding principal or making it an inconsequential component of investor compensation. When this is done, even a relatively small average annual profit generation, which would be insufficient for mortgages with back-loaded returns of principal, produces a satisfactory return.

Under existing mortgage plans, the only way to speed the return of principal to the lender is by drastically increasing the size of the monthly payment, or conversely, drastically lowering the initial mortgage principal lent. Doing so either creates an unaffordable monthly payment burden, or substantially diminishes the borrower's purchasing capacity. In either case, the principal return remains significantly back-loaded and non-linear so that the average principal outstanding during the amortization period is a larger percentage of the original balance.]

The return on a mortgage, or any investment, is measured by the average annual cash flow

to the investor (adjusted for time and risk) relative to the amount initially invested. Former mortgage plans have ignored the value of maximizing the risk-adjusted return on mortgage financing by separating, as completely as possible, the compensation component of the cash flow returned to the investor from the repayment of the initial principal. By avoiding required monthly installments consisting of both compensation in the form of interest figured on the remaining principal outstanding and repayment of some portion of the remaining principal, the homeowner's current payment burden can be minimized. In addition, the separation of compensation from original principal repayment can actually expand the amount of original financing extended, thus increasing the homebuyer's purchasing capacity, as well as providing a superior risk-adjusted return to the mortgage investor.

Beginning at Page 12, line 5

Using the system of the present invention, then, the [EPC] EPMO permits the lender in this example to realize an average rate of return of 10.316%, which is obtained by dividing the annual appreciation of \$12,895 by the average principal balance of \$125,000.